IMPENDLE LOCAL MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2018

General Information

Contact Numbers	Tel. 033 996 6000
	Fax: 033 996 0852
Website	www.impendle.gov.za
Demarcation Code	KZN224
Municipal Council	
Mayor	Cllr Ndela SG (Speaker)
Councillors	Cllr. Dlamini DS
	Cllr Dlamini K
	Cllr Memela T
	Cllr Mtolo P (MPAC Chairperson)
	Cllr Mvelease NG
	Cllr Ngubane S
Grading of local authority	Grade 1
	Category B
Accounting Officer (AO)	Mr Kunene OV
Chief Finance Officer (CFO)	Mrs Soji SZ
Registered office	21 Mafahleni Street
	Impendle
	3227
Business address	21 Mafahleni Street
	Impendle
	3227
Postal address	Private Bag X512
	Impendle
	3227
Bankers	Amalgamated Banks of South Africa (ABSA)
	Chatterton Branch, Pietermaritzburg
Auditors	Auditor General South Africa
Attorneys	GNG Incoporated
	211 Burger Street
	Pietermaritzburg
	3200

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The reports and statements set out below comprise the annual financial statements presented to the Impendle Municipal Council:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
VAT	Value Added Tax
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DORA	Division of Revenue Act
EPWP	Expanded Public Works Programme
UMDM	Umgungundlovu District Municipality

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Legislation

The following legislations were taken into account during the preparation of the Financial Statements: Constitution of the Republic of South Africa 1996, Municipal Systems Act 32 of 2000, Municipal Finance Management Act 56 of 2003, Municipal Property Rates Act 6 of 2004, Municipal Structures Act 117 of 1998 and Division of Revenue Act.

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records; responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied, supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality’s cash flow forecast for the year ending 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue its operational existence for the foreseeable future.

The municipality is dependent on the grant allocations through the Division of Revenue Act (2016) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Impendle Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's Chief Financial Officer.

Auditor General of South Africa is responsible for independent review of Annual Financial Statements and expressing an opinion on fair presentation.

The annual financial statements set out on page 5 to 60, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2018 and were signed on its behalf by:

Accounting Officer
Kunene O.V. (Mr)

Impendle Local Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	6 157	-
Operating lease asset	4	27 946	54 289
Receivables from exchange transactions	5	1 137 493	403 938
Receivables from non-exchange transactions	6	301 173	358 212
VAT receivable	7	1 100 253	1 070 870
Consumer debtors	8	6 229 734	4 804 435
Cash and cash equivalents	9	5 901 092	3 272 850
		14 703 848	**9 964 594**
Non-Current Assets			
Investment property	10	12 780 000	11 815 000
Property, plant and equipment	11	101 179 956	107 396 247
Intangible assets	12	740 453	1 047 874
		114 700 409	**120 259 121**
Total Assets		**129 404 257**	**130 223 715**
Liabilities			
Current Liabilities			
Operating lease liability	4	175 009	243 500
Payables from exchange transactions	14	5 197 390	3 495 192
Unspent conditional grants and receipts	15	2 672 744	813 571
Provisions	16	2 780 957	2 621 965
Current portion of long term loan	17	662 825	603 028
		11 488 925	**7 777 256**
Non-Current Liabilities			
Employee benefit obligations	18	727 565	666 126
Long Term Loan	17	602 228	1 265 054
		1 329 793	**1 931 180**
Total Liabilities		**12 818 718**	**9 708 436**
Net Assets		**116 585 539**	**120 515 279**
Accumulated surplus		116 585 539	120 515 279

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods and rendering of services		(1 749)	49 091
Service charges	19	66 396	48 128
Rental of facilities and equipment	21	689 580	828 809
Licences and permits		78 230	29 328
Other income	22	695 080	123 375
Interest received - investment	23	904 275	1 410 804
Total revenue from exchange transactions		**2 431 812**	**2 489 535**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	4 694 465	4 489 769
Transfer revenue			
Government grants & subsidies	25	51 143 366	61 445 082
Fines, Penalties and Forfeits		1 350	1 270
Total revenue from non-exchange transactions		**55 839 181**	**65 936 121**
Total revenue	20	**58 270 993**	**68 425 656**
Expenditure			
Employee related costs	26	25 200 919	21 481 557
Remuneration of councillors	27	2 394 492	2 160 838
Audit fees	28	1 411 677	916 801
Depreciation and amortisation	29	5 845 481	6 606 372
Impairment loss/ Reversal of impairments	30	12 869 428	2 420 794
Finance costs	31	201 950	255 997
Lease rentals on operating lease		643 015	-
Bad debts	32	-	11 297
Debt impairment		17 229	1 447 245
Contracted services	33	5 350 560	3 635 457
Grant funded expenditure	34	1 264 361	13 001 483
General expenses	35	7 966 621	12 996 100
Total expenditure		**63 165 733**	**64 933 941**
(Deficit) surplus for the year from continuing operations		**(4 894 740)**	**3 491 715**
Discontinued operations		965 000	485 000
(Deficit) surplus for the year		**(3 929 740)**	**3 976 715**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	13 943 661	103 779 317	117 722 978
Adjustments			
Correction of errors	-	313 775	313 775
Change in accounting policy	(13 943 661)	12 445 472	(1 498 189)
Balance at 01 July 2016 as restated*	**-**	**116 538 564**	**116 538 564**
Changes in net assets			
Surplus for the year	-	3 976 715	3 976 715
Total changes	-	3 976 715	3 976 715
Restated* Balance at 01 July 2017	**-**	**120 515 279**	**120 515 279**
Changes in net assets			
Surplus/ (Deficit) for the year	-	(3 929 740)	(3 929 740)
Total changes	-	(3 929 740)	(3 929 740)
Balance at 30 June 2018	**-**	**116 585 539**	**116 585 539**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Receipts from customers		1 799 693	3 888 912
Grants and subsidies received		49 284 193	61 877 562
Service charges- Refuse		66 396	48 128
Interest income		904 275	1 410 804
Other receipts		609 081	203 064
		52 663 638	67 428 470
Payments			
Employee costs		(28 317 881)	(23 840 403)
Suppliers		(22 275 551)	(23 745 267)
Finance costs		(201 950)	(255 997)
Other cash item		11 899 590	-
		(38 895 792)	(47 841 667)
Net cash flows from operating activities	37	**13 767 846**	**19 586 803**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(10 193 804)	(17 750 136)
Purchase of other intangible assets	12	(342 771)	(1 348 314)
Net cash flows from investing activities		**(10 536 575)**	**(19 098 450)**
Cash flows from financing activities			
Movement in Long Term Loan		(603 029)	(548 626)
Net increase/(decrease) in cash and cash equivalents		**2 628 242**	**(60 273)**
Cash and cash equivalents at the beginning of the year		3 272 850	4 099 483
Cash and cash equivalents at the end of the year	9	**5 901 092**	**3 272 850**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	191 200	-	**191 200**	(1 749)	**(192 949)**	45
Service charges	40 000	33 000	**73 000**	66 396	**(6 604)**	45
Rental of facilities and equipment	671 000	13 000	**684 000**	689 580	**5 580**	45
Licences and permits	51 000	37 000	**88 000**	78 230	**(9 770)**	
Other income	506 000	154 000	**660 000**	632 000	**(28 000)**	45
Interest received - investment	700 000	-	**700 000**	904 275	**204 275**	45
Total revenue from exchange transactions	**2 159 200**	**237 000**	**2 396 200**	**2 368 732**	**(27 468)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4 878 000	-	**4 878 000**	4 694 465	**(183 535)**	45
Transfer revenue						
Government grants & subsidies	53 759 000	-	**53 759 000**	51 143 366	**(2 615 634)**	45
Fines, Penalties and Forfeits	1 000	-	**1 000**	1 350	**350**	45
Total revenue from non-exchange transactions	**58 638 000**	**-**	**58 638 000**	**55 839 181**	**(2 798 819)**	
Total revenue	**60 797 200**	**237 000**	**61 034 200**	**58 207 913**	**(2 826 287)**	
Expenditure						
Employee Related Costs	(23 508 000)	(2 641 000)	**(26 149 000)**	(25 200 919)	**948 081**	45
Remuneration of councillors	(2 353 000)	(54 000)	**(2 407 000)**	(2 394 492)	**12 508**	45
Audit fees	(981 000)	-	**(981 000)**	(1 411 677)	**(430 677)**	45
Depreciation and amortisation	(8 587 000)	-	**(8 587 000)**	(5 845 481)	**2 741 519**	45
Impairment loss/ Reversal of impairments	-	-	**-**	(12 869 428)	**(12 869 428)**	45
Finance costs	(151 700)	-	**(151 700)**	(201 950)	**(50 250)**	45
Lease rentals on operating lease	(900 000)	-	**(900 000)**	(643 015)	**256 985**	
Debt impairment	(3 078 000)	-	**(3 078 000)**	(17 229)	**3 060 771**	45
Contracted Services	(1 332 000)	(1 603 000)	**(2 935 000)**	(5 350 560)	**(2 415 560)**	45
Transfers and Subsidies	(3 600 000)	400 000	**(3 200 000)**	(1 264 361)	**1 935 639**	456
General Expenses	(9 615 000)	2 737 000	**(6 878 000)**	(7 966 621)	**(1 088 621)**	45
Total expenditure	**(54 105 700)**	**(1 161 000)**	**(55 266 700)**	**(63 165 733)**	**(7 899 033)**	
Surplus before Capital	**6 691 500**	**(924 000)**	**5 767 500**	**(4 957 820)**	**(10 725 320)**	
Deficit for the year from continuing operations	**6 691 500**	**(924 000)**	**5 767 500**	**(4 957 820)**	**(10 725 320)**	
Discontinued operations	-	-	**-**	965 000	**965 000**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**6 691 500**	**(924 000)**	**5 767 500**	**(3 992 820)**	**(9 760 320)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	6 157	**6 157**	45
Operating lease asset	-	-	**-**	27 946	**27 946**	45
Receivables from exchange transactions	2 922 450	4 000 000	**6 922 450**	1 137 493	**(5 784 957)**	45
Receivables from non-exchange transactions	450 000	-	**450 000**	301 173	**(148 827)**	45
VAT receivable	-	-	**-**	1 100 253	**1 100 253**	45
Consumer debtors	-	-	**-**	6 229 734	**6 229 734**	45
Cash and cash equivalents	2 000 000	(2 000 000)	**-**	5 901 092	**5 901 092**	45
	5 372 450	**2 000 000**	**7 372 450**	**14 703 848**	**7 331 398**	
Non-Current Assets						
Investment property	11 600 000	-	**11 600 000**	12 780 000	**1 180 000**	45
Property, plant and equipment	126 049 780	-	**126 049 780**	101 179 956	**(24 869 824)**	45
Intangible assets	700 000	-	**700 000**	740 453	**40 453**	45
	138 349 780	**-**	**138 349 780**	**114 700 409**	**(23 649 371)**	
Total Assets	**143 722 230**	**2 000 000**	**145 722 230**	**129 404 257**	**(16 317 973)**	
Liabilities						
Current Liabilities						
Operating lease liability	-	-	**-**	175 009	**175 009**	45
Payables from exchange transactions	881 000	-	**881 000**	5 197 388	**4 316 388**	45
Unspent conditional grants and receipts	-	-	**-**	2 672 744	**2 672 744**	45
Provisions	1 000 000	-	**1 000 000**	2 780 957	**1 780 957**	
Current portion of long term loan	663 000	-	**663 000**	662 825	**(175)**	
	2 544 000	**-**	**2 544 000**	**11 488 923**	**8 944 923**	
Non-Current Liabilities						
Provisions	620 000	-	**620 000**	-	**(620 000)**	45
Employee benefit obligations	-	-	**-**	727 565	**727 565**	45
Long Term Loan	1 384 000	-	**1 384 000**	602 228	**(781 772)**	45
	2 004 000	**-**	**2 004 000**	**1 329 793**	**(674 207)**	
Total Liabilities	**4 548 000**	**-**	**4 548 000**	**12 818 716**	**8 270 716**	
Net Assets	**139 174 230**	**2 000 000**	**141 174 230**	**116 585 541**	**(24 588 689)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	139 174 230	2 000 000	**141 174 230**	116 585 539	**(24 588 691)**	
Undefined Difference	-	-	-	2	2	
Total Net Assets	**139 174 230**	**2 000 000**	**141 174 230**	**116 585 539**	**(24 588 691)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

1. Operating lease asset- this relates to lease rental income which was budgeted for under rental of facilities.
Receivables from exchanged transactions- budget included estimated revenue due to the municipality for rental for new contracts entered into during the reporting period.
2. VAT receivable- a portion of VAT refund is included in the non-exchange receivables budget.
3. Consumer debtors- new valuation roll commenced and property values increased which resulted in increase in debtors book.
4. Cash and cash equivalents- budget projections relates to 100% expenditure incurred for the year relating to conditional grants.
5. Intangible assets- this item was budgeted for under the property,plant and equipment line item.
6. Operating lease liability- this item was budgeted for under the operating lease expenses.
7. Payables from exchanged transactions- budget projections included anticipated unspent grant expenditure from previous financial year.
8. Unspent conditional grants and receipts- item budgeted for under payables from exchange transactions budget.
9. Long-term loan- a new loan was taken during the reporting period, processes for the approval of the loan were expected to be concluded during 2015/2016 financial year therefore the loan liability was budgeted for in the 2015/2016 financial year.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice , issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Trade receivables and receivables

The municipality assesses its trade receivables and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of and tangible assets.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives of property, plant and equipment and intangible assets

As described in Accounting Policies 1.5 and 1.7, the municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

Provision for Rehabilitation of Landfill Site

The municipality has an obligation to rehabilitate its refuse transfer station. Provision is made for this obligation based on the size / extent of the land to be rehabilitated. Current costs are projected based on the fair value calculations by the Engineering Consultants, using the average rate of inflation over the remaining period until rehabilitation.

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, the cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction cannot be determined reliably but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.5 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	30
Plant and machinery	Straight line	10-15
Furniture and fixtures	Straight line	10
Motor vehicles	Straight line	5-7
Office equipment	Straight line	
• Computer Hardware		4
• Office Machinery		3-5
IT equipment	Straight line	3-5
Infrastructure- Roads	Straight line	10-15
Community	Straight line	
• Sportfields		30
• Community Halls		30
Other property, plant and equipment	Straight line	
• Security Measures		3
• Security Measures		5
Other equipment	Straight line	
• Kitchen Equipment		5-7
Communication equipment	Straight line	
• A/V Equipment		5

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Accounting Policies

1.5 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Derecognition

Item of property, plant and equipment are derecognised when the asset is disposed off or when there are no future economic benefits or service potential expected from the use of an asset, the gain or losses arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equpment. Such obligations are referred to initial estimate of the costs of dismantling and removing the item and restoring the site on which it it is located, the obligation for which a municipality incurrs either when the item is acquired or as a consequences of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Intangible assets (continued)

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by a entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from a entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

1.8 Financial instruments (continued)

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by a entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of a entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of a entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of a entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

1.9 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

1.11 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

Employee benefits are all forms of consideration given by a entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- a entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Accounting Policies

1.12 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from a entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

The municipality does not have post employment benefit plans. However, the municipality recognises its employees who have completed 10, 20, 30, 40 years of service in terms of the collective agreement.

Actuarial valuations are conducted on an annual basis by independent actuaries. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Accounting Policies

1.13 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A constructive obligation to restructure arises only when a municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.15 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

1.16 Revenue from non-exchange transactions (continued)

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

1.16 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.17 Commitments

The term commitments’ is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. An agency may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

Accounting Policies

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and which have not been condoned as the end of the year must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management (Act No.56 of 2003), the Municipal Systems (Act No.32 of 2000), and the Public Office Bearers (Act No. 20 of 1998) or is in contravention of the economic municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.25 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.26 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financila Statistics classifications and budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.28 Related parties (continued)

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.29 Value Added Taxation

The Municipality accounts for Value Added Tax on payment basis. This means that VAT is declared to the South African Receiver of Revenue Services as input VAT or output VAT only when payments are made to suppliers or invoices made out to customers for goods and services. The net output VAT on debtors where money has not been received or creditors where payments has not yet been made is disclosed separately in the Statements of Financial Position in terms of GRAP 1.

1.30 Events after the Reporting Period

Adjusting and non-adjusting events may occur between the reporting date and the date the report is authorised for issue. Where an adjusting event occurs that affects a liability that has been disclosed, for example, the amount or timing of a liability has altered or an uncertainty relating to a provision has been removed, then an adjustment to that item is required. Where a future obligation relating to a contingent liability has been confirmed, i.e. a court case is settled after the reporting date and the contingency has previously been disclosed in a note, then a liability or provision will need to be recognised as follows:

- as a provision if some uncertainty still exists with respect to the amount or timing of the discharge of the obligation; or
- as a liability if no uncertainties exist. Where a non-adjusting event occurs relating to liabilities, for example, the market value of a financial liability changes after the reporting date, no adjustments are made to the financial statements. However, if a non-adjusting event is material, the agency must disclose the following for each material category of non-adjusting event after the reporting date: the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

The impact of the standard is set out in note of Changes in Accounting Policy.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

The impact of the standard is set out in note of Changes in Accounting Policy.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

The impact of the standard is set out in note of Changes in Accounting Policy..

3. Inventories

Consumables	6 157	-

4. Operating lease asset (accrual)

Current assets	27 946	54 289
Non-current liabilities	-	-
Current liabilities	(175 009)	(243 500)
	(147 063)	**(189 211)**

5. Receivables from exchange transactions

Other receivables	1 137 493	403 938

6. Receivables from non-exchange transactions

Fines	49 678	50 117
Other receivables from non-exchange - Debtors	201 647	235 860
Consumer debtors - Income Accrued	-	1 348
Consumer debtors - Other	49 848	70 887
	301 173	**358 212**

7. VAT receivable

VAT	1 100 253	1 070 870

8. Consumer debtors

Gross balances		
Rates	8 371 590	6 936 377
Less: Allowance for impairment		
Rates	(2 141 856)	(2 131 942)
Net balance		
Rates	6 229 734	4 804 435

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Consumer debtors (continued)

Rates		
Current (0 -30 days)	102 764	501 499
31 - 60 days	307 768	361 208
61 - 90 days	135 288	125 272
91 - 120 days	122 070	423 990
121 - 365 days	143 253	118 746
> 365 days	5 418 591	3 273 720
	6 229 734	**4 804 435**

Refuse		
Current (0 -30 days)	5 590	-
31 - 60 days	4 658	-
61 - 90 days	3 453	-
91 - 120 days	3 274	-
121 - 365 days	2 431	-
>365 days	10 559	-
	29 965	**-**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(2 131 942)	(695 994)
Contributions to allowance	(17 229)	(1 447 245)
Debt impairment written off against allowance	18 611	11 297
	(2 130 560)	**(2 131 942)**

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	162
Bank balances	4 108 066	2 889 554
Short-term deposits	1 793 026	383 134
	5 901 092	**3 272 850**

There were no contract debtors that were pledged as security for overdraft facilities during the 2017/18 financial year.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA BANK - Main Account - 4076240270	4 108 594	2 885 852	4 102 446	4 108 076	2 889 554	4 090 031
FNB BANK - Call Account - 62631786996	-	71 276	-	-	71 276	-
FNB BANK - Call Account - 62631816660	-	70 838	-	-	70 838	-
FNB BANK - Call Account - 62631790690	-	241 020	-	1 793 026	241 020	-
ABSA BANK - Call Account - 9330895097	-	-	-	-	-	-
ABSABANK - Call Account - 9330895097	-	-	-	-	-	-
ABSA BANK - Call Account - 9335336595	-	-	-	-	-	-
ABSA BANK - Call Account - 9335231632	-	-	-	-	-	-
ABSA BANK - Fixed Account - 9331073311	-	-	-	-	-	-
Standard BANK - Call Account - 258541326-014	-	-	-	-	-	-
Standard BANK - Call Account - 258541326-008	-	-	-	-	-	-
NEDBANK - Call Account - 03-7881012463000056	-	-	-	-	-	-
NEDBANK - Call Account - 03-7881012463-000054	-	-	-	-	-	-
NEDBANK - Call Account - 03-7881012463-000055	-	-	-	-	-	-
Standard BANK - Call Account - 258541326-013	-	-	-	-	-	-
Standard BANK - Call Account - 258541326-008	-	-	-	-	-	-
ABSABANK - Call Account - 9330703428	-	-	-	-	-	-
Petty Cash	-	-	-	-	162	9 452
ABSA BANK - Call Account - 9331684388	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	**4 108 594**	**3 268 986**	**4 102 446**	**5 901 102**	**3 272 850**	**4 099 483**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Investment property

	2018			2017		
	Cost / Valuation	Accumulated impairment	Carrying value	Cost / Valuation	Accumulated impairment	Carrying value
Investment property	12 780 000	-	12 780 000	11 815 000	-	11 815 000

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	11 815 000	965 000	12 780 000

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	11 330 000	485 000	11 815 000

Pledged as security

There were no item of property, plant and equipment that were pledged as security for overdraft facilities during the 2017/18 financial year. Investment properties are fair-valued by an independent valuer every year. The valuation was performed using the market related research to establish market value on investment properties.

Investment property 1 - Shops ERF 26	2 580 000	2 340 000
Investment property 2 - Thusong Centre and Offices ERF 38	6 300 000	5 800 000
Investment property 3 - Two Dwellings and Outside Building ERF 52	350 000	330 000
Investment property 4 - Community Hall andCreche ERF 165	2 900 000	2 720 000
Investment property 5 - Municipal land - ERF 33	650 000	625 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was Saturday, 30 June 2018. Revaluations were performed by an independent valuer, Mills Fitchets who is not connected to the municipality and have recent experience in location and have suitable qualifications in the category of the investment property being valued.

The valuation was based on open market value for existing use.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

11. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	11 232 000	-	11 232 000	11 232 000	-	11 232 000
Buildings	-	-	-	4 947 385	(2 008 497)	2 938 888
Plant and machinery	247 860	11 228 679	11 476 539	1 924 867	(1 046 524)	878 343
Furniture and fixtures	3 451 491	(1 919 425)	1 532 066	1 319 410	(1 003 055)	316 355
Motor vehicles	1 203 951	(727 868)	476 083	1 417 036	(683 259)	733 777
IT equipment	504 128	-	504 128	428 548	-	428 548
Infrastructure	74 380 398	(56 779 588)	17 600 810	63 248 373	(25 579 588)	37 668 785
Community	43 229 267	(5 433 556)	37 795 711	38 379 148	(4 518 382)	33 860 766
Security Measures	-	-	-	49 788	(32 621)	17 167
Work in progress	-	-	-	71 699	(44 603)	27 096
Farming Machinery	-	-	-	339 670	(289 368)	50 302
Assets under construction	20 562 619	-	20 562 619	19 232 990	-	19 232 990
Kitchen equipment	-	-	-	420 381	(409 151)	11 230
Total	**154 811 714**	**(53 631 758)**	**101 179 956**	**143 011 295**	**(35 615 048)**	**107 396 247**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Additions through transfer of functions / mergers	Assets Written Off	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	11 232 000	-	-	-	-	-	-	-	11 232 000
Buildings	2 938 888	-	-	(2 744 581)	-	-	(194 307)	-	-
Plant and machinery	878 343	-	-	-	10 858 509	-	(260 313)	-	11 476 539
Furniture and fixtures	316 355	1 216 062	-	-	-	105 795	(106 146)	-	1 532 066
Motor vehicles	733 777	5 263	-	-	-	-	(262 957)	-	476 083
IT equipment	428 548	298 196	-	-	-	-	(222 616)	-	504 128
Infrastructure	37 668 785	9 059 856	-	-	(10 858 509)	-	(5 399 894)	(12 869 428)	17 600 810
Community	33 860 766	3 934 945	-	-	-	-	-	-	37 795 711
Security Measures	17 167	-	-	-	-	(17 167)	-	-	-
Communications equipment	27 096	-	-	-	-	(27 096)	-	-	-
Office equipment	50 302	-	-	-	-	(50 302)	-	-	-
Assets under Construction	19 232 990	1 329 629	(5 650 147)	5 650 147	-	-	-	-	20 562 619
Kitchen equipment	11 230	-	-	-	-	(11 230)	-	-	-
	107 396 247	**15 843 951**	**(5 650 147)**	**2 905 566**	**-**	**-**	**(6 446 233)**	**(12 869 428)**	**101 179 956**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Assets Written Off	Transfers	Transfers to Dr. Nkosazana Municipality	Depreciation	Impairment loss	Total
Land	11 232 000	-	-	-	-	-	-	11 232 000
Buildings	2 837 213	260 794	-	-	-	(159 119)	-	2 938 888
Plant and machinery	1 191 029	22 807	(144 091)	-	-	(191 402)	-	878 343
Furniture and fixtures	466 416	818	(34 607)	-	-	(116 272)	-	316 355
Motor vehicles	1 055 409	-	(3)	-	-	(321 629)	-	733 777
IT equipment	494 165	123 017	(24 333)	-	-	(164 301)	-	428 548
Infrastructure	30 779 382	14 564 988	-	-	(1 540 639)	(3 714 152)	(2 420 794)	37 668 785
Community	34 360 421	2 043 967	-	-	(1 271 036)	(1 272 586)	-	33 860 766
Kitchen equipment	14 881	8 600	(164)	-	-	(6 150)	-	17 167
Communication equipment	30 644	13 259	(1 763)	-	-	(15 044)	-	27 096
Office equipment	78 707	158	(2 130)	-	-	(26 433)	-	50 302
Assets under construction	20 185 206	5 338 201	-	(6 290 417)	-	-	-	19 232 990
Security Measures	15 522	-	(2)	-	-	(4 290)	-	11 230
	102 740 995	**22 376 609**	**(207 093)**	**(6 290 417)**	**(2 811 675)**	**(5 991 378)**	**(2 420 794)**	**107 396 247**

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	5 053 359	14 179 631	19 232 990
Additions/capital expenditure	6 853 447	-	6 853 447
	11 906 806	**14 179 631**	**26 086 437**

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	5 637 223	14 547 983	20 185 206
Additions/capital expenditure	4 248 975	1 089 226	5 338 201
Transferred to completed items	(4 832 839)	(1 457 578)	(6 290 417)
	5 053 359	**14 179 631**	**19 232 990**

Work in progress includes a Milling project with a carrying amount under community assets with a carrying amount of R11 571 625 (2018 and 2017) which is considered to be a project with delays due to supplier not providing the correct machinery to complete the project.

12. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 818 374	(2 077 921)	740 453	1 991 121	(943 247)	1 047 874

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	1 047 874	342 771	(650 192)	740 453

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	314 987	1 348 314	(615 427)	1 047 874

13. Repairs and Maintenance

	2018	2017
Contracted Services	116 536	474 028
General expenses	62 414	17 889
	178 950	**491 917**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Payables from exchange transactions

Trade payables	1 465 395	1 691 281
Payments received in advanced	479 302	114 546
Accrued bonus	618 158	595 500
Commission	25 400	25 400
Deposits received	5 151	4 146
Other payables	1 868 249	-
Retentions	735 735	1 064 319
	5 197 390	**3 495 192**

15. Unspent conditional grants and receipts

The municipality received in total an amount of R21 984 000 for conditional grants during the 2017/2018 financial year.The municipality had an unspent amount of R2 672 744 at the end of the financial year 2017/2018.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Sports Field - KwaNxamalala Grant	2 672 744	75 015
Housing Fund Grant	-	381 091
Electrification Grant	-	75 908
Sport and Recreation Grant	-	281 557
	2 672 744	**813 571**

Movement during the year

Balance at the beginning of the year	813 571	381 091
Additions during the year	21 984 000	33 343 262
Income recognition during the year	(20 124 827)	(32 910 782)
	2 672 744	**813 571**

These amounts are invested in a ring-fenced investment until utilised. Revenue is only recognised from these conditional grants once all conditions relating to expenditure are fulfilled.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

16. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	891 000	278 740	-	1 169 740
Leave pay provision	1 730 965	-	(119 748)	1 611 217
	2 621 965	**278 740**	**(119 748)**	**2 780 957**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	810 000	81 000	-	891 000
Leave pay provision	1 787 689	285 620	(342 344)	1 730 965
	2 597 689	**366 620**	**(342 344)**	**2 621 965**

The provisions for the above relates to expenses directly attributed to the rehabilitation of landfill site and leave pay-out for staff leave days. The municipality expects to incur these expenses during the next financial year and the amount to be incurred is uncertain.

Environmental rehabilitation provision

In terms of the licencing of the Landfill refuse site, the municipality will incur licensing costs and rehabilitation costs estimated at R1 169 740 to restore the site at the end of its useful life. Provision has been made, taking into account the independent valuer's report, for the net present value of this cost, using the average cost of borrowing interest rate. The provision will be funded internally by internally generated revenue.

The municipality is not certain of the amount which might be incurred in the rehabilitation of the landfill site.

Employee benefit cost provision

The above provision for leave pay relates to the number of days accumulated by the employees during the reporting period. The leave pay provision is calculated on all outstanding leave balances as at 30 June 2018. This is the amount that the employees would be entitled to receive should the employees resign or cease employment with the municipality on 30 June 2018.

The municipality is not certain when will the leave days be paid out to employees as this depends on when will employees resign or cease employment with the municipality.

17. Long Term Loan

	2018	2017
Non-current		
ABSA Loan	1 265 053	1 868 081
Less: Short - term portion transferred to current liabilities	(662 825)	(603 028)
	602 228	**1 265 053**
Current liabilities		
Current portion of long term loan	662 825	603 028

During 2015/16 financial year, the municipality had taken a long-term loan of R3 million. The loan is repaid in sixty (60) monthly installments over the period of loan term at a fixed interest rate of 9.50 percent.

18. Employee benefit obligations- Long Service Award

Movement in the present value of the defined benefit obligation	2018	2017
Opening balance	666 126	610 695
Current service cost	77 024	93 625
Interest cost	56 059	49 922
Actuarial (gain)/losses	(71 644)	(88 116)
	727 565	**666 126**

The actuarial valuation of the long service awards report has been performed by One Pangaea Financial. The Projected Unit Credit Method has been used to value the long service award and the effective date of this valuation is 30 June 2018.

Key assumptions used

Assumptions used at the reporting date:The expected inflation assumption of 5.54% was obtained from the differential between market yields on index-linked bonds (2.83%) consistent with the estimated terms of the liabilities and those of nominal bonds (9.03%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+9.03%-0.50%)/1+2.83%))-1. Thus, a general salary inflation rate of 6.54.% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.34.%. It has been assumed that the next salary increase will take place on 1 July 2018.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the Long Service Awards are based on an employee's salary at the date of the award.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index than in absolute terms. Experience has shown that over the long term, salary inflation will exceed general inflation by 1.0%.

Key Financial Assumptions	
Discount rate	9.03%
CPI	5.54%

The salaries used in the valuation include an assumed increase on 01 July 2018 of 6.54% as per the SALGBC Circular No: 02//2018. The next salary increase was assumed to take place on 01 July 2019.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

Key Demographic Assumptions

Withdrawal from Service (sample annual rate)	Age	Female	Male
	20	24%	16%
	25	18%	12%
	30	15%	10%
	35	10%	8%
	40	6%	6%
	45	4%	4%
	50	2%	2%
	55	1%	1%
	60+		

It has been assumed that male employees will retire at 62 and female at age 50.

The mortality rate during employment in South Africa is 85 years to 90 years

19. Service charges

Service charges	66 396	48 128

20. Revenue

Sale of goods	(1 749)	49 091
Service charges	66 396	48 128
Rental of facilities and equipment	689 580	828 809
Licences and permits	78 230	29 328
Other income	695 080	123 375
Interest received - investment	904 275	1 410 804
Property rates	4 694 465	4 489 769
Government grants and subsidies	51 143 366	61 445 082
Fines, Penalties and Forfeits	1 350	1 270
	58 270 993	**68 425 656**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	(1 749)	49 091
Service charges	66 396	48 128
Rental of facilities and equipment	689 580	828 809
Licences and permits	78 230	29 328
Other income	695 080	123 375
Interest received	904 275	1 410 804
	2 431 812	**2 489 535**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	4 694 465	4 489 769
Transfer revenue		
Government grants & subsidies	51 143 366	61 445 082
Fines, Penalties and Forfeits	1 350	1 270
	55 839 181	**65 936 121**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Rental of facilities and equipment

Facilities and equipment		
Hall Hire	9 804	15 132
Rental of equipment	4 722	6 204
Residential Rental- Lot 52	-	76 840
Rental income- Thusong Centre	675 054	497 027
Rental income- Market Stalls	-	233 606
	689 580	**828 809**

22. Other income

Sundry Receipts	50 000	4 715
Tender Fees	143 167	34 030
Rates Certificates	1 279	5 441
Local Government SETA Refund	487 767	40 790
Copies, Fax and Printing	12 867	38 399
	695 080	**123 375**

23. Investment revenue

Interest revenue		
Interest on Investments	702 765	908 429
Interest charged on trade and other receivables	201 510	502 375
	904 275	**1 410 804**

The amount included in Investment revenue arising from exchange transactions amounted to R702 765..

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R904 275 (PY: R1,410 804).

24. Property rates

Rates accrued

Residential	737 775	168 366
Commercial property	277 753	346 161
Government	2 328 283	2 354 884
Small holdings and farms	1 704 947	1 615 868
Multi-purpose	11 566	4 491
Less: Income forgone	(365 859)	(48 093)
	4 694 465	**4 441 677**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Government grants and subsidies

Operating grants		
Equitable share	28 107 442	28 234 300
Finance Management Grant	1 900 000	1 825 000
Cyber Cadet Grant (Art & Culture)	188 000	179 000
LG SETA Grant	-	400 000
Expanded Public Works Programme Grant	1 460 000	1 443 000
Library Grant	744 000	559 000
Free Basic Electricity Grant	3 367 558	3 114 700
Sport Field Maintenance Grant	281 557	318 443
	36 048 557	36 073 443
Capital grants		
Municipal Infrastructure Grant	11 845 000	16 382 000
Electrification Grant	-	7 924 092
Sports Field Grant	3 249 809	1 065 547
	15 094 809	25 371 639
	51 143 366	**61 445 082**

Equitable Share

In terms of the Constitution of the Republic of South Africa, the Equitable Share Grant is used to subsidise the provision of basic services to indigent community members and facilitation of service delivery.

All registered indigents receive a monthly free basic electricity which was allocated as a percentage of the Equitable Share.

Free Basic Electricity Grant

Current-year receipts	3 367 557	3 114 700
Conditions met - transferred to revenue	(3 367 557)	(3 114 700)
	-	**-**

All conditions were met.

This grant is to be used to provide monthly subsidy of 50kW of electricity free to indigent people.

This amount is part of Equitable share.

The focus was to assist the municipality to subsidise indigent people in the community with free basic services.

As at 30 June 2018, implementation was 100% complete and the grant had been spent in full.

Sports Field Grant

Balance unspent at beginning of year	75 015	-
Current-year receipts	5 847 538	1 140 562
Conditions met - transferred to revenue	(3 249 809)	(1 065 547)
	2 672 744	**75 015**

Conditions still to be met - remain liabilities (see note 15).

As at 30 June 2018, the implementation was not complete and the grant had been spent in full.

The grant is used for construction of Nxamalala Sports field.

This grant was transferred by the Department of Sports and Recreation

Figures in Rand	2018	2017

25. Government grants and subsidies (continued)

Cyber Cadet Grant

Current-year receipts	188 000	179 000
Conditions met - transferred to revenue	(188 000)	(179 000)
	-	-

Conditions to the grant were met in full - (see note 15).

The grant is to be used to pay Cyber Cadet's salary.

The grant was transferred by Provincial Library Services Department.

As at 30 June 2018, the implementation was 100% and the grantconditions had been spent in full.

Housing Fund Grant

Balance unspent at beginning of year	381 091	381 091
Tansferred to the Department of Human Settlement	(381 091)	-
	-	**381 091**

The grant was transferred back to the Department of Human Settlement.

Municipal Infrastructure Grant

Current-year receipts	11 845 000	16 382 000
Conditions met - transferred to revenue	(11 845 000)	(16 382 000)
	-	-

All conditions were met.

The grant was used for infrastructure development only.

The grant was transferred by National Treasury.

The grant intended focus is to provide specific capital finance for basic municipal infrastructure backlogs for the poor households to micro-enterprises and social institutions servicing poor communities.

The grant was 100% implemented and the grant had been spent in full.

Electrification Grant

Balance unspent at beginning of year	75 908	-
Current-year receipts	-	8 000 000
Conditions met - transferred to revenue	(75 908)	(7 924 092)
	-	**75 908**

The grant is used for the implementation of the integrated national electrification by providing capital subsidies to Eskom to address the electrification backlogs of permanently occupied dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

This grant was transferred by the Department of Energy.

Sports Field Maintenance Grant

Balance unspent at beginning of year	281 557	-
Current-year receipts	-	600 000

Figures in Rand	2018	2017

25. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(281 557)	(318 443)
	-	**281 557**

Conditions to the grant were met in full - remain liabilities (see note 15).

This grant is for mass participation and sport development aimed at increasing and sustaining mass participation in sports and recreational activities.

The grant was transferred by the Department of Sport and Recreation.

Expanded Public Works Programme Grant

Current-year receipts	1 460 000	1 443 000
Conditions met - transferred to revenue	(1 460 000)	(1 443 000)
	-	-

The conditions of this grant were met in full.

As at 30 June 2018, the implementation was 100% and the conditions of the grant had been met in full.

The EPWP Grant creates work opportunities in four sectors, namely; increasing the labour intensity of government- funded by infrastructure projects.

The grant was transferred by the Department of Public Works.

Finance Management Grant

Current-year receipts	1 900 000	1 825 000
Conditions met - transferred to revenue	(1 900 000)	(1 825 000)
	-	-

The grant is to be used to finance the cost for the establishment of budget and treasury office, establishment of supply chain management, internal audit and audit committee, appointment and training of finance interns, preparing and timely submission of annual financial statements, implement corrective actions to address audit findings and the implementation of a financial recovery plan and implementation thereof where appropriate.

The grant was transferred by National Treasury.

The focus of this grant is to promote and support reforms of financial management by building capacity in municipalities to implement the Municipal Finance Management Act No.56 of 2003.

As at 30 June 2018, implementation was 100% and the conditions of the grant had been spent in full.

Library Grant (Art and Culture)

Current-year receipts	744 000	559 000
Conditions met - transferred to revenue	(744 000)	(559 000)
	-	-

All conditions were met.

This grant is to be used to transform urban and rural community library infrastructure facilities and services through a recapitalised programme of provincial level in support of local government and national initiatives.The grant was transferred by Provincial Library Department

The focus for this grant was to assist the municipality to finance the salary of the library staff

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Government grants and subsidies (continued)

As at 30 June 2018, implementantion was 100% and the conditions of the grant had been met in full.

LG SETA Grant

Current-year receipts	-	400 000
Conditions met - transferred to revenue	-	(400 000)
	-	-

All conditions were me- remain liabilities (see note 15).

The grant is for the implementation of the National Skills Development Strategy III for 2011 to 2017 developed by the Minister of Higher Education and training as directed by the Skill Development (Act No. 97 of 1998) and the Skills Development Levy Act (Act No. 9 of 1999) by improving the effectiveness and efficiency of the skills development systems..

The focus is promotion and support of the integration of theoretical learning with workplace training and provision of learning programme to learners.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue (Act of 2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years, except for the Municipal Systems Improvement Grant which will cease to exist as at the 2016/17 financial year.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

26. Employee related costs

Basic	17 281 115	13 490 900
Bonus	1 053 162	1 057 721
Medical aid - company contributions	845 291	902 405
UIF	160 744	154 597
SDL	202 865	212 995
Bargaining Council Levies	336 152	8 486
Leave pay provision charge	206 083	286 124
Defined contribution plans	1 987 709	1 941 965
Travel, motor car, accommodation, subsistence and other allowances	541 781	-
Overtime payments	23 721	186 650
Long-service awards	59 586	93 625
Acting allowances	26 415	-
Car allowance	340 000	-
Housing benefits and allowances	129 565	72 830
Cellphone Allowance	65 241	9 613
Standby Allowances	21 918	25 459
Non-Pensionable Allowance	59 950	117 250
Actuarial Gains and Losses	(71 644)	(88 116)
	23 269 654	**18 472 504**

Remuneration of Municipal Manager

Annual Remuneration	625 476	250 463
Other (Travel and Other allowances)	302 747	115 034
	928 223	**365 497**

Remuneration of Chief Finance Officer

Annual Remuneration	633 469	651 384
Other (Travel and Other allowances)	263 743	224 772
	897 212	**876 156**

Remuneration for Community and Corporate Services Manager

Annual Remuneration	674 632	701 067
Other (Travel and Other allowances)	301 422	187 433
	976 054	**888 500**

Remuneration for Infrastructure & Planning Services Manager

Annual Remuneration	740 168	803 257
Other (Travel and Other allowances)	241 368	75 643
	981 536	**878 900**

27. Remuneration of councillors

Mayor	767 941	713 136
MPAC Chairperson	273 098	282 721
Councillors (All councillors except MPAC Chairperson are in the same bracket)	1 353 453	1 164 981
	2 394 492	**2 160 838**

There were no councillors who had arrear accounts outstanding for more than 90 days during the reporting period.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. Remuneration of councillors (continued)

In-kind benefits

The remuneration of the Political Office Bearers and Councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

The Mayor is full-time. He is provided with an office, cellphone, 3G modem and a laptop at the cost of the Council.

The Mayor utilises Council owned vehicle for official duties.

The Mayor has two full-time mayoral aids sourced within municipal security section.

28. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - current year	1 411 677	916 801

PAYE and UIF

Current year subscription / fee	159 960	3 125 153

Pension and Medical Aid Deductions

Amount paid - current year	2 833 100	2 844 370

VAT

VAT receivable	1 100 253	1 070 870

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

As of 30 June 2018, no Councillors had arrear accounts outstanding for more than 90 days:

29. Depreciation and amortisation

Property, plant and equipment	5 845 481	6 606 372

30. Impairment of assets

Impairments		
Property, plant and equipment	12 869 428	2 420 794
Plant and Equipment and Infrastructure assets were assessed for impairment during the reporting period. Certain Plant within the Plant & Equipment was subsequently impaired by R 12 869 428 in 2018, R344 874:(2017).		

During the 2017/18 financial year, infrastructure assets were impaired by an amount of R12 869 428. This class of assets was assessed during the 2016/17 financial year and resulted in impairment reversal of R3 952 310.

31. Finance costs

Non-current borrowings	201 950	255 997

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

32. Bad debts

Bad debts	-	11 297

33. Contracted services

Repairs and maintenance	1 763 239	474 028
Specialist Services	1 650 386	3 161 429
Other Contractors	1 936 935	-
	5 350 560	**3 635 457**

34. Grants funded expenditure

Other subsidies		
Library Grant	918 466	791 447
Cyber Cadet Grant	-	218 620
Electrification projects	67 826	6 950 958
Municipal System Improvement Grant	-	766 271
LG SETA Grant	-	426 606
Finance Managment Grant	-	1 666 406
Expanded Public Works	-	1 862 732
Sports Facilities Maintenance	278 069	318 443
	1 264 361	**13 001 483**

35. General expenses

Accounting fees	80 099	-
Advertising	190 372	125 997
Bank charges	88 605	59 573
Cleaning Material	57 375	84 509
Scrapping loss	-	3 019 201
Insurance	217 908	188 879
Conferences and seminars	-	46 355
Legal Fees	-	143 370
Motor vehicle licence fees	22 746	12 391
Fuel and oil	520 110	639 065
Printing and stationery	94 425	119 268
Promotions	77 024	-
Protective clothing	187 725	144 810
Restoration of landfill site	-	82 854
Employee Assistant Program	-	8 907
Subscriptions and membership fees	500 000	501 590
Telephone and fax	622 779	646 196
Training	119 400	328 990
Subsistence & Travelling	181 435	260 878
Bursaries	420 690	-
Donations	148 467	419 000
IDP Review	190 612	-
Indigent relief	3 367 558	3 530 830
LED Business plans and strategy	-	99 917
Art tourism culture	92 561	267 745
Children support	-	12 000
Elderly support	30 959	59 018
HIV- Health	-	34 000
Other expenses	755 771	2 160 757
	7 966 621	**12 996 100**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

36. Fair value adjustments

Investment property (Fair value model)	965 000	485 000

37. Cash generated from operations

(Deficit) surplus	(3 929 740)	3 976 715
Adjustments for:		
Depreciation and amortisation	5 845 481	6 606 372
Fair value adjustments	-	(485 000)
Impairment deficit	12 869 428	2 420 794
Bad Debts	-	11 297
Movements in operating lease assets and accruals	(42 148)	189 211
Movements in provisions	158 992	24 277
Debt Impairment	-	1 447 245
Scrapping loss on assets transfered	-	3 019 201
Changes in working capital:		
Inventories	(15 220)	-
Receivables from exchange transactions	(733 555)	(110 092)
Consumer debtors	(1 578 072)	(735 653)
Other receivables from non-exchange transactions	57 039	(70 887)
Payables from exchange transactions	1 702 197	3 495 191
VAT	(29 383)	(1 070 870)
Unspent conditional grants and receipts	1 859 173	813 571
Current portion of long term loan	-	55 431
	16 164 192	**19 586 803**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	3 722 938	8 403 739
Total capital commitments		
Already contracted for but not provided for	3 722 938	8 403 739

This committed expenditure relates to plant and equipment and will be financed by available Municipal Infrastructure Grant Allocation gazetted in the 2017/18 DORA Allocation.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	717 847	711 505
- in second to fifth year inclusive	208 845	926 692
	926 692	**1 638 197**

Operating lease payments represent rentals payable by the municipality for certain of its office photocopying machines. Leases are negotiated for an average term of five years and rentals have straightlined for the lease term duration. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	251 431	235 456
- in second to fifth year inclusive	128 299	337 402
	379 730	**572 858**

Certain of the municipality's facilities is held to generate rental income. Rental of these facilities is expected to generate rental on an ongoing basis. Lease agreements are cancelable with three months written notice by either party and have terms from 1 to 5 years. There are no contingent rents receivable.

39. Related parties

There were no related party transactions as at the end of the financial period. Particulars relating to remuneration of municipal managent is set out in note 27.

40. Prior period errors

The Municiplaity identified minor errors relating to debtors (R200 338), Retentions (R105 922) and other payables (7 514), this lead to an adjustment of R 313 775 to accumulated suplus.

Figures in Rand	2018	2017

41. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand

42. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	5 499	3 373
Less: Amounts written off	(5 499)	(3 373)
	-	-

The fruitless and wasteful expenditure for the previous period was reported to council for investigation. Council resolved to write-off the expenditure following investigation outcomes.

The fruitless and wasteful expenditure for the current year relates interest charged by service providers for late payment of invoices.

43. Irregular expenditure

Opening balance	10 772 953	44 947
Add: Irregular Expenditure - current year	3 046 977	10 728 006
Less: Amounts condoned	(13 819 930)	-
	-	**10 772 953**

Analysis of expenditure awaiting condonation per age classification

Current year	3 046 977	10 728 006
Prior years	10 728 006	-
	13 774 983	**10 728 006**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Irregular expenditure relates to expenditure incurred, (i) while the contract has expired (ii) automatic renewal of contracts.		3 046 977
		-

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from Supply Chain Management Policy needs to be approved by the Accounting Officer and noted by Council. All expenses incurred have been condoned by Council.

All deviations have been approved by Council and have been reported in terms of section 114 of the Municipal Finance Management Act, 56 of 2003.

Summary of deviations:	MFMA Regulations	2018	2017
Transport services	36(1)(a)(ii)	57 384	262 098
Advertisement services	36(1)(a)(v)	266 979	149 376
Repairs of plant	36(1)(a)(ii)	39 007	75 253
Other	36(1)(a)(ii)	204 107	24 305
		567 477	**511 032**

45. Budget differences

The excess of actual expenditure over the final budget of 15% over or under approved budget is explained under this note.

Material differences between budget and actual amounts

Rendering of services- This relates to actual commission income from motor licensing in excess of budgeted income which includes planning fees that were not anticipated thus were not budgeted for.

Rental Income- Transfer of operating lease income that was budgeted as rental of facilities and equipment.

Interest received on investments- Interest accrued on investments which relates to conditional grants is higher than budgeted for due to high rate of return on investments.

Administration- A portion of administration expenditure budgeted for included as general expenses.

Depreciation and amortisation- the favourable variance is due to change in accounting policy from fair value to cost model.

Debt Impairment- The favourable variance is due to over provision in the previous years and payment of long outstanding debt by other state department.

Impairement loss/Reversal of impairments- The adverse variance is due to reversal of infrastructure assessment of roads owing to change in accounting policy.

Finance Costs- interest on long service awards was not budgeted for during the reporting period.

Contracted Services- expenditure relating to contract services has increased due to implementation of MSCOA.

Grants and Subsidies- decreased due to expenditure being reported under the function it relates to.

General expenses- the municipality applied stringent monitoring measure on general expenses to cut down costs.

Fair value adjustments- this relates to appraisal of investment properties owned by the municipality, this item is a non-cash item and as such it was not budgeted for during the reporting period.

Operating lease asset- this relates to lease rental expenditure for photocopier and printers.

Inventory- Inventory reflect an adverse variance due to no budget provision made in the current financial year.
Receivables from exchanged transactions- budget included estimated revenue due to the municipality for rental for new contracts entered into during the reporting period.

VAT receivable- a portion of VAT refund is included in the non-exchange receivables budget.

Consumer debtors- These relates to property rates and refuse, and the increasedis due to none payment of accounts by consumers..

Cash and cash equivalents- budget projections relates to 100% expenditure incurred for the year relating to conditional grants.

Operating lease liability- this item was budgeted for under the operating lease expenses.

Payables from exchanged transactions- budget projections included anticipated unspent grant expenditure from previous financial year.

Unspent conditional grants and receipts- item budgeted for under payables from exchange transactions budget.

46. Contingencies

A contingent liability from the possible outflow of money as a result of a litigation. The municipality had no contingent liability during the reporting period.

47. Unauthorised Expenditure

There was no unauthorised expenditure during 2017/2018 financial year.

48. Events after the reporting date

There were no events after the reporting period.

49. Changes in accounting policy

During the beginning of the year the Municipality recorded to change the accounting policy in respect of infrastructure assets which were previously carried at the revaluation model and changed to the cost model. The impact of the change is analysed below.

Infrastructure

Before change in accounting policy	-	42 963 371
Effect of the change in accounting policy	-	(5 294 586)
	-	**37 668 785**

The above had the effect of increasing the accumulated surplus by R 12 445 472 which was accumulated over the years.

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

The municipality has not applied the new [name the standard or interpretation] issued, and effective for periods commencing . [Describe the new required treatment and the current treatment.] The estimated impact of the implementation of the new standard on the 2018 annual financial statements is as follows: